

PG p.l.c.

Half-Yearly Report
31 October 2019

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Half-yearly directors' report

Trading performance

During the six-month period ended 31 October 2019, the Group registered a turnover of €58.1 million compared to €49.8 million in the comparative period for 2018, representing a growth of 16.8%.

Increases in turnover were registered in the Group's supermarket and associated retail operations (6.4%). Pama Shopping Village continued to maintain its popularity with our clientele, while that encouraging levels of growth were consistently recorded at Pavi Shopping Complex in response to the ongoing refurbishment program, which is now in its final stages.

Turnover in the Group's Zara and Zara Home segment amounted to €10.4 million. The Group's main outlet in this sector, in Sliema, was closed for expansion and refurbishment during the large part of the comparative six month period ended 31 October 2018. The turnover registered between May and October of this year was 37.7% higher than the equivalent period in 2017, before the expansion and refurbishment project was commenced.

The overall gross profit earned by the Group during the period amounted to €9.7 million compared to €7.5 million in 2018. Operating margins at the Pama and Pavi supermarkets have improved as a result of the higher turnover and the resulting enhanced efficiency, supplemented by a growth in rentals. Gross profit was also improved due to the increase in sales from franchise operations, that typically carry higher margins.

The Group's sales, marketing and administrative expenses, net of sundry income, amounted to €1.6 million in the six months ended 31 October 2019, compared to €1.7 million in 2018. Operating profit amounted to €8.1 million, representing a growth of 40.0% over the comparable period in 2018.

The tax charge for the period represented an effective tax rate of 28% (25% in 2018), reflecting the higher incidence of trading profits that incur tax at 35%. After deducting finance costs and taxation, the Group registered a profit for the period of €5.3 million compared to €4.1 million in the comparative period in 2018.

Cash generated from operating activities during the period amounted to €9.7 million, whereas cash used in investing activities was limited to €1.7 million. Dividends paid during the period amounted to €2.8 million. Bank borrowings as at 31 October 2019, net of cash in hand, amounted to €17.5 million, compared to €22.0 million as at 30 April. The Group's liquidity was further strengthened during the six month period under review and PG plc remains well positioned to pursue new growth opportunities while retaining a strong element of resilience.

The Group adopted IFRS 16, dealing with leases, in a prospective manner as from 1 May 2019. This standard has had a relatively immaterial impact on the net results for the period, but had a material impact on the Group's balance sheet. A new asset, amounting to €16.4 million, has been recognised to reflect the Group's right of use over the Pama Shopping Village; while that a corresponding liability of €16.6 million recognises the present value of the long term lease obligations due to the associated company from which the property is sub-leased.

Trading prospects and plans

The completion of the Zara store in Sliema in November 2018 and the refurbishment program at Pavi have brought all the Group's physical facilities to a consistently high quality level. In the short term, further investment will be incremental in nature. The Pama offering has been enhanced with the opening of a pharmacy and with the refurbishment of the bakery, introducing on-premises baked products which have proved popular with patrons; while a new drinks outlet is under construction. Our catering offering at Pavi will be greatly enhanced during 2020, incorporating a large and attractive space that is currently unutilised. An additional car parking floor, roofed by PV panels, is also planned for next year, and work thereon should start as soon as building permits are in hand; while the retail space within the complex will be augmented.

Trading prospects and plans - continued

In the meantime work continues on the task of upgrading the Group's core supermarket IT systems. Negotiations are currently underway with potential suppliers, and contracts are expected to be finalised early in 2020. Work would then commence on an intensive parameterisation and implementation project that will represent a key challenge for the Group moving ahead. It will also present an opportunity of enhancing our consumer offering and of further differentiating our proposition.

Operating performance at all our outlets remains encouraging. Zara and Zara Home operations at our Sliema store have stabilised, and have demonstrated a growth in sales and contribution that is commensurate with the investment made. As already noted above, Pama operations remain steady while those of Pavi continue to show encouraging growth, which would however normally be expected to diminish as the refurbished complex reaches its optimum performance level.

Competition has intensified across both the segments in which the Group operates, and this trend is expected to continue. The Group's operations continued to benefit in recent months from a favourable economic environment, albeit one that could be adversely effected by political uncertainty. Up to today, neither of these factors appear to have had a negative impact on the Group's revenues and performance, and the Directors are cautiously optimistic that the Group will deliver results, for the second half of its financial year, that are not inferior to those recorded in the equivalent period during the financial year 2019.

The PG Group remains well positioned to finance further growth. Opportunities have been identified for expanding our supermarket and associated retail sector, but at this stage these remain subject to the successful conclusion of commercial negotiation and/or the issuance of the relevant development permit.

Dividends

On 25 November 2019, the board of directors resolved to distribute a net interim dividend of €2million in respect of the financial year ending 30 April 2020, payable on 5 December 2019, to the ordinary shareholders who were on the Register of Members of the company as at 25 November 2019. The interim dividend was paid out of taxed profits and is equivalent to €0.0185185 net (€0.02849 gross) per ordinary share.

On behalf of the Board



John Zarb
Chairman



Paul Gauci
Executive Vice-Chairman

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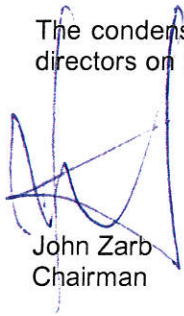
18 December 2019

Condensed consolidated statement of financial position

	As at 31 October	As at 30 April
	2019 €'000 (unaudited)	2019 €'000 (audited)
ASSETS		
Non-current assets	88,175	71,565
Current assets	15,531	14,404
Total assets	103,706	85,969
EQUITY AND LIABILITIES		
Total equity	40,980	38,472
Non-current liabilities	34,660	19,424
Current liabilities	28,066	28,073
Total liabilities	62,726	47,497
Total equity and liabilities	103,706	85,969

The notes on pages 7 to 10 are an integral part of this interim condensed consolidated financial information.

The condensed interim financial information on pages 3 to 11 were authorised for issue by the board of directors on 18 December 2019 and were signed on its behalf by:


John Zarb
Chairman


Paul Gauci
Executive Vice-Chairman

Condensed consolidated statement of comprehensive income

	Note	Six-months ended 31 October	
		2019 €'000 (unaudited)	2018 €'000 (unaudited)
Revenue		58,101	49,754
Gross profit		9,734	7,529
Operating profit		8,093	5,781
Finance costs		(807)	(290)
Finance income		8	-
Share of results of associates		37	49
Profit before tax		7,331	5,540
Tax expense		(2,023)	(1,403)
Profit for the period		5,308	4,137
Earnings per share	4	0.049	0.038

The notes on pages 7 to 10 are an integral part of this interim condensed consolidated financial information.

Condensed consolidated statement of changes in equity

	Share capital €'000	Retained earnings €'000	Total €'000
Balance at 1 May 2018	27,000	6,785	33,785
Comprehensive income			
Profit for the period - total comprehensive income	-	4,137	4,137
Transactions with owners			
Dividends for the period	-	(2,550)	(2,550)
Balance at 31 October 2018	27,000	8,372	35,372
Balance at 1 May 2019	27,000	11,472	38,472
Comprehensive income			
Profit for the period - total comprehensive income	-	5,308	5,308
Transactions with owners			
Dividends for the period	-	(2,800)	(2,800)
Balance at 31 October 2019	27,000	13,980	40,980

The notes on pages 7 to 10 are an integral part of this interim condensed consolidated financial information.

Condensed consolidated statement of cash flows

	Six-months ended 31 October	
	2019 €'000 (unaudited)	2018 €'000 (unaudited)
Net cash generated from operating activities	9,677	5,129
Net cash used in investing activities	(1,659)	(4,717)
Net cash used in financing activities	(4,141)	(3,165)
Movement in cash and cash equivalents	3,877	(2,753)
Cash and cash equivalents at beginning of period	(4,707)	65
Cash and cash equivalents at end of period	(830)	(2,688)

The notes on pages 7 to 10 are an integral part of this interim condensed consolidated financial information.

Notes to the half-yearly report

1. Basis of preparation

This report is being published pursuant to the terms of Chapter 5 of the Listing Rules and the Prevention of Financial Markets Abuse Act 2005.

The financial information being published has been extracted from the PG group's unaudited interim financial statements for the six months ended 31 October 2019, prepared in accordance with accounting standards adopted for use in the European Union for reported interim financial information (IAS 34 – Interim Financial Reporting). In terms of Listing Rule 5.75.5, this interim report has not been audited by the group's independent auditors.

2. Significant accounting policies

The accounting policies applied in the preparation of the half-yearly report are consistent with those of the annual financial statements for the year ended 30 April 2019, as described in those financial statements, updated for the adoption of new or amended standards.

A number of new or amended standards became applicable for the current reporting period. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases. The impact of the adoption of this standard and the new accounting policy are disclosed below. The other standards did not have a material impact on the Group's accounting policies and did not require retrospective adjustments.

The Group has adopted IFRS 16 using the modified retrospective approach from 1 May 2019, and has not restated comparatives for the 30 April 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening financial position on 1 May 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an incremental borrowing rate as of 1 May 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 May 2019 was 6.5%.

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 30 April 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to property rented out under long term agreements which is being operated by the Group.

The change in accounting policy affected the following items in the statement of financial position on 1 May 2019:

- right-of-use assets - increase by €16.8 million (presented under non-current assets)
- lease liabilities - increase by €16.5 million (presented under non-current liabilities)
 - increase by €0.3 million (presented under current liabilities)

2. Significant accounting policies

(b) The Group's leasing activities and how these are accounted for

Until 30 April 2019, leases of investment properties were classified as operating leases. Payments made under operating leases were charged to profit or loss over the period of the lease.

From 1 May 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is amortised over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3. Segmental information

The group's operations consist of the management of supermarket operations and associated retail operations, together with the operation, in Malta, of the Zara and Zara Home franchises (the franchise operations). These operations are carried out, predominantly, on the local market. An analysis by business segment of the group's turnover and operating profit for this reporting period is set out below:

Group	Supermarkets and associated retail operations €'000	Franchise operations €'000	Group €'000
Period ended 31 October 2019			
Revenue	52,909	11,230	64,139
Less: inter-segmental sales	(5,186)	(852)	(6,038)
	47,723	10,378	58,101
Segment results	6,390	1,703	8,093
Net finance costs			(799)
Share of associates results			37
Profit before tax			7,331
Tax expense			(2,023)
Profit for the period			5,308
Period ended 31 October 2018			
Revenue	48,392	5,426	53,818
Less: inter-segmental sales	(3,539)	(525)	(4,064)
	44,853	4,901	49,754
Segment results	5,191	590	5,781
Net finance costs			(290)
Share of associates results			49
Profit before tax			5,540
Tax expense			(1,403)
Profit for the period			4,137

4. Earnings per share

Earnings per share is based on the profit after taxation attributable to the ordinary shareholders of the company divided by the weighted average number of ordinary shares in issue during the period.

5. Related party transactions

The principal group transactions carried out with related parties during the period were as follows:

	Six-months ended 31 October	
	2019 €'000	2018 €'000
Lease charge payable to associates	1,059	1,001

The group's balances with associates as at the end of the period are as follows:

	As at 31 October	As at 30 April
	2019 €'000	2019 €'000
Current		
Net amounts owed to associates	(461)	(262)

6. Commitments

The board has approved capital expenditure not provided and contracted for in these condensed consolidated financial statements amounting to €3million. These capital commitments relate to the additional car parking floor at Pavi Shopping Complex and the upgrading of the Group's core supermarket IT systems.

Director's statement pursuant to Listing Rule 5.75.3

I hereby confirm that to the best of my knowledge:

1. the condensed half-yearly report gives a true and fair view of the financial position of the group as at 31 October 2019, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).
2. the interim directors' report includes a fair review of the information required in terms of Listing Rules 5.81 to 5.84.



John Zarb
Chairman